

MINUTES

MONTANA SENATE 58th LEGISLATURE - REGULAR SESSION

SUB-COMMITTEE ON TAXATION ON SB 466; SB 470; HB 749

Call to Order: By **CHAIRMAN MIKE TAYLOR**, on March 17, 2003 at 5:20 P.M., in Room 422 Capitol.

ROLL CALL

Members Present:

Sen. Mike Taylor (R) Chairman
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Shirley Herrin, Committee Secretary

Others Present:

REP. JIM PETERSON, HD 94, Buffalo
Dan Dodds, Department of Revenue
Jim Standaert, Legislative Fiscal Division
Larry Finch, Department of Revenue
Terry Johnson, Legislative Fiscal Division

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Discussion On: SB 466; SB 470; HB 749

CHAIRMAN TAYLOR stated the committee would discuss the charts that Dan Dobbs had handed out at the subcommittee meeting held earlier in the day. He started with reading the comparison chart on Exempt Sellers, line by line, to determine whether they were in agreement. The Chairman told the committee they don't have to vote on every exemption but if they came to something they wanted to discuss or change anything he would stop and they would do so.

The chairman started by reviewing Exhibit # 3, (Exempt Sellers).

The issue of whether to exempt thrift stores was raised. **REP. JIM PETERSON** offered the idea that the committee should limit their discussion to goods and services rather than types of stores. The chairman suggested they pass over making a decision about thrift stores and return to the subject later.

The committee discussed not exempting Other non-retail sales under the Agricultural Producers on Exhibit 3.

CHAIRMAN TAYLOR moved to Exhibit # 4, (Exempt Buyers). **SEN. JON ELLINGSON** inquired about the WIC buyers. **Jim Standaert** explained the procedure for using the cards for the WIC program. **CHAIRMAN TAYLOR** continued reviewing the Agriculture exemptions.

The chairman then moved on to review Exhibit # 2 (Exempt Goods and Services). He stated he personally exempted everything on the list down to the Transportation section. **SEN. BILL GLASER** inquired about exempting "Architectural, engineering, surveying, graphic design services if resulting product used exclusively outside state". **SEN. ELLINGSON** asked what the rationale was in having that included. **REP. PETERSON** responded that the rationale used in HB 749 was if it was truly an input to a production process or an input to a manufacturing process it should be exempt. The consumer item is taxed.

CHAIRMAN TAYLOR then moved on to the Transportation section of the Exemption schedule. He stated he chose to exempt truck transportation because they are already being taxed on the truck and on the fuel and his idea is not to pyramid too many taxes. Under the pipeline transportation section, **SEN. GLASER** inquired what the amount would be on pipeline transportation. **Dan Dodds** responded it would be very small because most of it is going to be interstate.

The next divisions to be reviewed were the sections on Farm Product Warehousing and Storage and Security Brokerage. **SEN. ELLINGSON** inquired why Dividends and Interest was on the list, how can you tax in the form of a sales tax bill, Dividends and Interest. **Lee Heiman** explained that it has traditionally been exempted in sales tax bills.

The chairman moved on to review page two of Exhibit # 2 under the section (Services Rendered by an Employee for Employer). He stated he had exempted all of the items down through Gambling. **SEN. GLASER** asked if the sales tax on light vehicles was an additional tax. **Jim Standaert** replied the tax on light vehicles was \$195 for vehicles 0-4 years plus the local option tax, plus

the registration fees. The tax used to be 2% of the new vehicle price and now is \$195. The committee discussed exempting vehicles that were one ton or higher. **CHAIRMAN TAYLOR** said they already raised fees on license plates this year. **Jim Standaert** stated the current revenue from the flat tax is \$72M per year. The proposed tax on light vehicles would add another \$64M to that tax. **SEN. GLASER** noted this would be a one time event. **REP. JIM PETERSON** stated when you reach those higher GVW's it becomes an input, a part of your business. The chairman replied it should be set greater than a one ton, that there is a fairness issue to consider, that you should tax a one ton or less GVW vehicle and anything above one ton should not be taxed. After a brief discussion, the committee agreed to the light vehicle tax, but will consider the issue further.

CHAIRMAN TAYLOR then reviewed the (Utilities) section on page two, which the committee agreed they should be exempt. **CHAIRMAN TAYLOR** then moved on to the (Food) section. He said he was in favor of taxing all unprepared food and ingredients and then give an exemption to families, based on people that file taxes whether they make any money or not, and exempt \$4000 for the single person and \$8000 for a household, without receipts, you just give them the money back. You would be taking care of low income people.

SEN. ELLINGSON stated it is hard to get good data that can tell just how much individuals in different income categories are spending on taxed items. In order to take the regressivity out of the tax, you need to know how much tax people are paying. He continued by saying that people, to the extent that they know anything about sales taxes, are just used to the idea that food, groceries and medical expenses are going to be at the top of the list of being exempt. He said if this bill comes out, he believes it will be put to a vote and this would be a red flag to people. **CHAIRMAN TAYLOR** responded he is trying to address the lower income without creating a large number of FTE's to administer the program. **SEN. GLASER** stated it is traditional across the United States not to tax food. The committee opted to exempt unprepared food and ingredients.

The chairman reviewed the rest of page 2, Exhibit 2 and agreed with the exemptions listed. The committee then moved on to page 3 of Exhibit 2. They agreed to the exemptions up to (Electricity used in reducing or refining ores). The committee discussed that section in length. **Dan Dodds** answered questions from the committee. **CHAIRMAN TAYLOR** asked if anyone had a figure on the equipment they had just been discussing. **Dan Dobbs** replied he would get it for him tomorrow. **REP. PETERSON** stated that Section 24 of his bill addressed the issue of non-taxable service

to, or the use of, property or a service by a purchaser is non-taxable if the purchaser has an exemption certificate number. The committee decided to leave it as an exemption. They also decided to leave the section (Other industrial and mining inputs) as an exemption and wait until **Dan Dobbs** provides figures before making a final decision.

CHAIRMAN TAYLOR then moved into the (Construction Materials) section. The committee discussed whether to exempt those items. **REP. PETERSON** stated they had attempted to exempt public and commercial construction and on a residential building, they were taxing the materials but not the labor with the idea they would be taxing services in the end, so not tax the inputs leading up to those services. **SEN. ELLINGSON** questioned what the committee was going to tax? **CHAIRMAN TAYLOR** stated they were taxing (Other Building Materials) and exempt commercial construction.

CHAIRMAN TAYLOR then reviewed (General Provisions) Exhibit #1. The committee discussed the items listed and agreed with the exemptions.

CHAIRMAN TAYLOR asked **Mr. Dobbs** to bring a total number on what the committee has exempted. He announced they would meet again tomorrow at 11:30am.

ADJOURNMENT

Adjournment: 6:25 P.M.

SEN. MIKE TAYLOR, Chairman

SHIRLEY HERRIN, Secretary

MT/SH

EXHIBIT (tas56dad)